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Wendy's Co  
Form 10-Q  
August 07, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended July 1, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-2207

THE WENDY'S COMPANY

(Exact name of registrants as specified in its charter)

Delaware

38-0471180

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

One Dave Thomas Blvd., Dublin, Ohio 43017

(Address of principal executive offices) (Zip Code)

(614) 764-3100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 236,991,883 shares of The Wendy's Company common stock outstanding as of August 1, 2018.

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THE WENDY'S COMPANY AND SUBSIDIARIES  
INDEX TO FORM 10-Q

	Page
<b><u>PART I: FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Balance Sheets as of July 1, 2018 and December 31, 2017</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended July 1, 2018 and July 2, 2017</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 1, 2018 and July 2, 2017</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended July 1, 2018 and July 2, 2017</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
<u>Item 4. Controls and Procedures</u>	<u>40</u>
 <b><u>PART II: OTHER INFORMATION</u></b>	 <u>42</u>
<u>Item 1. Legal Proceedings</u>	<u>44</u>
<u>Item 1A. Risk Factors</u>	<u>44</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>44</u>
<u>Item 6. Exhibits</u>	<u>45</u>
<u>Signatures</u>	<u>46</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

THE WENDY'S COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In Thousands Except Par Value)

	July 1, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 194,939	\$ 171,447
Restricted cash	30,000	32,633
Accounts and notes receivable, net	95,121	114,390
Inventories	3,283	3,156
Prepaid expenses and other current assets	22,414	20,125
Advertising funds restricted assets	87,688	62,602
Total current assets	433,445	404,353
Properties	1,226,961	1,263,059
Goodwill	741,783	743,334
Other intangible assets	1,301,463	1,321,585
Investments	52,144	56,002
Net investment in direct financing leases	228,838	229,089
Other assets	95,545	79,516
Total assets	\$4,080,179	\$ 4,096,938
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 31,118	\$ 30,172
Accounts payable	21,321	22,764
Accrued expenses and other current liabilities	103,351	111,624
Advertising funds restricted liabilities	96,972	62,602
Total current liabilities	252,762	227,162
Long-term debt	2,771,660	2,724,230
Deferred income taxes	274,344	299,053
Deferred franchise fees	93,139	10,881
Other liabilities	257,735	262,409
Total liabilities	3,649,640	3,523,735
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.10 par value; 1,500,000 shares authorized; 470,424 shares issued; 238,083 and 240,512 shares outstanding, respectively	47,042	47,042
Additional paid-in capital	2,883,167	2,885,955
Accumulated deficit	(224,120 )	(163,289 )
Common stock held in treasury, at cost; 232,341 and 229,912 shares, respectively	(2,219,100 )	(2,150,307 )
Accumulated other comprehensive loss	(56,450 )	(46,198 )
Total stockholders' equity	430,539	573,203
Total liabilities and stockholders' equity	\$4,080,179	\$ 4,096,938

See accompanying notes to condensed consolidated financial statements.



Table of ContentsTHE WENDY'S COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands Except Per Share Amounts)

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
	(Unaudited)			
Revenues:				
Sales	\$ 167,344	\$ 160,859	\$ 320,993	\$ 309,071
Franchise royalty revenue and fees	107,559	112,548	205,467	207,238
Franchise rental income	51,529	46,935	101,636	89,852
Advertising funds revenue	84,570	—	163,470	—
	411,002	320,342	791,566	606,161
Costs and expenses:				
Cost of sales	138,154	130,581	270,373	255,124
Franchise support and other costs	7,031	3,789	13,204	7,432
Franchise rental expense	24,306	21,897	47,569	40,765
Advertising funds expense	84,570	—	163,470	—
General and administrative	49,163	50,059	99,519	101,373
Depreciation and amortization	33,427	31,309	65,579	60,474
System optimization (gains) losses, net	(92 )	41,050	478	39,643
Reorganization and realignment costs	3,124	17,699	5,750	17,880
Impairment of long-lived assets	1,603	253	1,809	763
Other operating income, net	(1,767 )	(2,089 )	(2,930 )	(3,807 )
	339,519	294,548	664,821	519,647
Operating profit	71,483	25,794	126,745	86,514
Interest expense, net	(30,136 )	(28,935 )	(60,314 )	(57,910 )
Loss on early extinguishment of debt	—	—	(11,475 )	—
Other income, net	917	2,844	1,661	3,233
Income (loss) before income taxes	42,264	(297 )	56,617	31,837
Provision for income taxes	(12,388 )	(1,548 )	(6,582 )	(11,341 )
Net income (loss)	\$ 29,876	\$ (1,845 )	\$ 50,035	\$ 20,496
Net income (loss) per share				
Basic	\$.13	\$(.01 )	\$.21	\$.08
Diluted	.12	(.01 )	.20	.08
Dividends per share	\$.085	\$.07	\$.17	\$.14

See accompanying notes to condensed consolidated financial statements.

Table of Contents

THE WENDY'S COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In Thousands)

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
	(Unaudited)			
Net income (loss)	\$29,876	\$(1,845)	\$50,035	\$20,496
Other comprehensive (loss) income, net:				
Foreign currency translation adjustment	(4,325 )	6,065	(10,369 )	8,010
Change in unrecognized pension loss:				
Unrealized gains arising during the period	—	—	156	156
Income tax provision	—	—	(39 )	(60 )
	—	—	117	96
Effect of cash flow hedges:				
Reclassification of losses into Net income (loss)	—	724	—	1,447
Income tax provision	—	(281 )	—	(559 )
	—	443	—	888
Other comprehensive (loss) income, net	(4,325 )	6,508	(10,252 )	8,994
Comprehensive income	\$25,551	\$4,663	\$39,783	\$29,490

See accompanying notes to condensed consolidated financial statements.

Table of Contents

THE WENDY'S COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In Thousands)

	Six Months Ended	
	July 1, 2018	July 2, 2017
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$50,035	\$20,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65,579	60,474
Share-based compensation	9,591	11,372
Impairment of long-lived assets	1,809	763
Deferred income tax	(2,508 )	(2,496 )
Non-cash rental income, net	(6,239 )	(5,286 )
Net receipt of deferred vendor incentives	4,904	7,077
System optimization losses, net	478	39,643
Gain on sale of investments, net	—	(2,553 )
Distributions received from TimWen joint venture	5,756	5,524
Equity in earnings in joint ventures, net	(3,648 )	(3,786 )
Long-term debt-related activities, net (see below)	15,036	6,038
Other, net	(1,093 )	3,296
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	8,315	(9,557 )
Inventories	(150 )	(71 )
Prepaid expenses and other current assets	(891 )	(2,116 )
Advertising funds restricted assets and liabilities	6,734	(14,522 )
Accounts payable	747	(4,484 )
Accrued expenses and other current liabilities	(6,034 )	(4,051 )
Net cash provided by operating activities	148,421	105,761
Cash flows from investing activities:		
Capital expenditures	(23,898 )	(32,117 )
Acquisitions	—	(86,788 )
Dispositions	1,814	77,980
Proceeds from sale of investments	—	3,282
Notes receivable, net	(538 )	(2,225 )
Payments for investments	(13 )	(375 )
Net cash used in investing activities	(22,635 )	(40,243 )
Cash flows from financing activities:		
Proceeds from long-term debt		